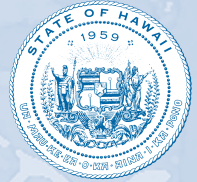


# Holomua



Employees' Retirement System  
of the State of Hawaii  
*Working to fulfill your retirement dreams...*



## 2014 Proposed Legislation

January 15<sup>th</sup> was the opening day of the 2014 Legislative Session. This is the second year of the 2013-2014 legislative biennium and the session is expected to close on May 1<sup>st</sup>. There were two bills introduced by the administration for this session that were related to the Employees' Retirement System (ERS). To date, only H.B.2264 and S.B. 2813 are still active which pertains to the holding period for real estate investments. Summaries of the bills are noted below. For more information on these and other legislation you may visit the State Capitol website at [www.capitol.hawaii.gov](http://www.capitol.hawaii.gov).

### **H.B. 2264 and S.B. 2813:** Relating to the Investment Authority of the Employees' Retirement System

The purpose of this bill is to repeal the limitation on the holding period for real estate acquired by the ERS by foreclosure, enforcement of security or in satisfaction of debts so that the real estate may be held and disposed of like any other investment in real property.

There is currently a limitation on the holding period for real estate acquired by the ERS through foreclosure, enforcement of security, or in satisfaction of debts that predates the enactment of legislation authorizing the ERS to invest in real estate. In order to prudently manage the ERS's real estate portfolio, the Board of Trustees of the ERS needs to be able to evaluate and plan for the retention or disposition of the real estate without distinction as to how the real estate was acquired. The limitation on the holding period for real estate acquired through foreclosure, enforcement of security or satisfaction of debts prevents the Board of Trustees of the ERS from making long-range plans for the affected property, which are necessary for the prudent management of the real estate investment portfolio.

The companion bills below are no longer active for this session as they were not heard by their required committees.

### **H.B. 2263 and S.B. 2812:** Relating to the Employees' Retirement System

The purpose of this proposal is to improve the funded status of the ERS and to reduce public employer contributions by changing the formula used to credit unused sick leave toward retirement benefits for public employees who become members of the ERS after June 30, 2014. This bill will reduce by one-half the amount of retirement service credited for accumulated unused sick leave (40 days for one month of service credit) for public employees.

Currently, members of the ERS who retire or leave public service with sixty or more days of accumulated unused sick leave may receive additional service credit for retirement purposes. These members receive additional retirement benefits because of the additional service credit, but do not make any contributions for the additional retirement benefits. The additional costs of providing retirement benefits based on accumulated unused sick leave are borne by the ERS and, ultimately, by the public employers.

In addition to the above, also being heard this session are proposals regarding the forfeiture of retirement benefits for members of the ERS convicted of employment-related felonies and regarding employer reporting of personnel and payroll data to the ERS.

Results of these proposals shall be covered in our June 2014 *Holomua*. Until then, you may follow these bills online at the State Capitol website noted above or by accessing the ERS website at <http://ers.ehawaii.gov>.

### **ERS Board of Trustees:**

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## Wes' Corner



We are well into 2014 and investment returns are positive for the first two quarters (and part of the third quarter) of the 2014 fiscal year. If it continues, this positive return should help with our large unfunded liability that stood at \$8.49 billion as of June 30, 2013. While legislation has been enacted over the past three years to assist with the ERS' funding, we still have a long way to go before the ERS is sustainable.

The ERS has a funded ratio of 60%, which shows a slight improvement from the steady decline over the past 6 years. This means that we have less than 2/3 of what we need in the fund for the anticipated pension payouts for all members who retire. Even though we don't need 100% of our funds today, it is important that we have most of it before everyone retires. Thus, all assumptions and variables affecting the ERS' funding must be regularly monitored, and changes or solutions may be required to ensure the sustainability of the ERS. The ERS Board of Trustees is doing everything possible to ensure that the ERS is around forever. It is imperative that we protect all current members' and retirees' accrued benefits, even if changes have to be made for future members. We just don't want to be in Detroit's situation, in which there is uncertainty about whether or not retirees will be paid their entire pensions.

After a few years of stability, the ERS membership is growing again. There were over 115,000 individuals that we serviced as of June 30, 2013, including 41,812 retirees and beneficiaries. As of this newsletter, we now have over 43,000 retirees to whom we pay monthly and semi-monthly pensions amounting to about \$1.1 billion annually. There are over 66,000 active members who will hopefully retire someday with pensions from the ERS. The average age and years of service of these members in 2013 was almost 48 years of age and 13.5 years of service. The average age of retirement for most members is around 60 years of age.

We will continue to find ways of improving our service to you, and in the meantime, we wish you good health and happiness through the remainder of 2014.

Take care and Aloha,

Wes Machida

## Board of Trustees — Continuity and New Beginnings

December and January were transitional months for the Employees' Retirement System (ERS) Board of Trustees.

The Board welcomed a newly appointed member, Patrick Frane, on November 13, 2013. Mr. Frane is an Administrative Officer of the John A. Burns School of Medicine at the University of Hawaii. He has been with the University in various administrative officer positions since 1998 and is also the Treasurer and Chair of the Finance Committee of the HGEA Board of Directors, and serves as a Trustee for the HGEA Trust Fund. Mr. Frane possesses a strong academic background and broad work experience and will be a thoughtful voice to support an effective retirement program and represent the interests of the general membership. Mr. Frane's term will run through January 1, 2018.

On January 2, 2014, two elected Board positions were filled – an active member position and a retiree member position.

Jackie Ferguson-Miyamoto, who ran unopposed as a Member-Trustee, began her new term on the Board effective January 2, 2014. She has been employed with the Harbors Division of the Department of Transportation for over 30 years and is also an elected Board member of the HGEA. Ms. Ferguson-Miyamoto has been an ERS Trustee since January 2, 1996. She provides the Board and the membership with stability, continuity, historical knowledge and experience.

Also effective January 2, 2014, Emmet Kane began a new term as the Board's Retiree-Trustee. Mr. Kane retired last year as a Deputy Fire Chief of the Honolulu Fire Department. He had previously served on the ERS Board from January 11, 2012 through July 31, 2013 and during his tenure, he was a member of the Board's Administrative and Audit Committees. He also served as the Board's Chair prior to his retirement. Mr. Kane replaces Mr. Wayne Yamasaki who, after completing his six-year term as a Trustee, is now enjoying a well-deserved, more relaxing retirement.

As the ERS Board transitions through these changes in membership, its commitment to the ERS membership and the future of the Fund remains constant and unwavering.

# Report from Vijay Chattergy, Chief Investment Officer

Aloha Kakou.

We have just posted a very strong 2013 performance of 16.3%, outperforming the policy benchmark by 0.5% and the 7.75% expected rate of return by 8.55%. This is something to be very pleased about, but we need to understand this performance in terms of drivers of returns and sources of risk.

In the current portfolio there is a standing policy designed overweight to U.S. domestic stocks and a discretionary marginal underweight to fixed income. In other words, the relative strong performance of 2013 derived from a willingness to accept the riskiness of stocks over the relative safety of bonds. Additionally, the specific fund managers in US stocks and bonds also seemed to demonstrate talent by outperforming their respective benchmarks.

These positive results should be acknowledged and appreciated. But how important are they to the sustainability of the overall pension plan? Certainly, we prefer that it's 16.3% and not 1.3%, but rather than happening at the end of December, it would be better to happen at the end of June. June ends the ERS's fiscal year, and the health of the investment portfolio at fiscal year-end is what goes into the assumptions and calculations used to establish the plan's projected sustainability. Of course, this information is less than satisfying because what is to stop us from changing the fiscal year to December and locking-in the wonderful 16.3%? What if we just took the best of any given four quarters and used the result to calculate the pension's health?

What concerns this quarter's *Holomua* is the idea of thinking for the long-term. What is an appropriate interval to assess investment policy and performance that still encourages long-term thinking commensurate with the expected enduring obligations of the pension plan?

One of the great challenges of managing a portfolio that is meant to be around into perpetuity is to appreciate long-range thinking and planning. Many of us invest and save for a relatively short-term objective like buying a bag or paying the rent. Even individual planning to purchase a family home or personal retirement may involve planning ahead for 30 or 40 years. The pension investment professional is investing and structuring a vehicle meant to service multiple generations.

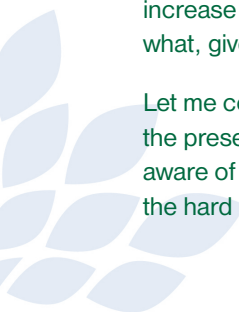
It's not enough to just check performance returns at 1-, 3-, 5-, and 10-year intervals. It's not practical to expect that monitoring investments every month, day, or hour will culminate in an efficient portfolio. Let's consider two ideas that help focus on the perpetual.

The first is Nietzsche's philosophical concept of the eternal return. Apologies to Nietzsche, but I will position the idea to mean, "if something is worth doing again, it was worth doing in the first place." I am taking great liberties here, but if we cannot manage the results 30 years from now of an investment decision made today, we should manage the decision-making process that we can control now. If, knowing what we know today, we would make the same investments again and again, regardless of the range of outcomes, then it was the right thing to do in the first place.

A more accessible concept is that of "cathedral" building. In medieval Europe the decision to erect a cathedral was often made by a village, knowing that the edifice might not be finished in a single generation. The faith to do today what would touch the face of eternity tomorrow was a powerful motivator. Constructing an investment portfolio today, we must think that its construction is never completed, and that it is constantly being built for the next generation.

The portfolio we have today must be seen as having a logic and purpose that the previous generation built. In fact, there are several investments that go back to the 1970s and 1980s that have performed admirably. At the same time, we continue to build toward the future, and changes made in the past couple of years have been the major driver of the \$2 billion plus increase of portfolio assets over that time. As portfolio construction and management continue to evolve, we must construct what, given what we understand today, will sustain the investment portfolio for the next generation.

Let me conclude with the Buddhist paradigm of living in the present moment. For the Buddhist, the happiest place to live is in the present (between the past and future); the concept does not preclude planning for the future, but challenges us to be fully aware of the present condition. Therefore, we must totally enjoy the returns we are now experiencing, but be fully aware that the hard lifting of cathedral building lies ahead. If we had to do 2013 again, we most certainly would.



# A very important message to retirees and their beneficiaries about avoiding pension overpayments

**As a retiree, it is very important that you** pass this information on to your designated beneficiary: All retirees are entitled to their pension payable in the month of death. Any pension received after the month of death is considered an over payment that the retiree or beneficiary is not entitled to receive. Overpayments must be reimbursed to the ERS.

For example, if the retiree's death occurs on any date from the 1st to the 31st in March 2014, the retiree would be entitled to receive his/her full March 2014 pension payment. Subsequent pension checks, however, regardless of the reason for the continued payments, are not payable.

It is imperative that the beneficiary and/or family report the retiree's death immediately to the ERS so we prevent any pension overpayments. The ERS is required to make every effort to collect any pension that the retiree and/or beneficiary is not entitled to receive.

In a recent case, a widow received 2 months of pension payments of approximately \$2300 after the retiree's death. The ERS is making a concerted effort to recover the pension amount paid out.

We need your cooperation to prevent the burden on your beneficiary and/or family of having to return any pension overpayments.

## 2014 Pension Payment Schedule

Basically, pension payments are paid on the 15th or the end of the month. If these dates fall on a weekend, then the payment date would be on the last business day prior to the weekend.

Pensioner's Payment Schedule	
First Half	End of Month
April 15	April 30
May 15	May 30
June 13	June 30
July 15	July 31
August 14	August 29
September 15	September 30
October 15	October 31
November 14	November 28
December 15	December 31

Just a reminder: If you wish to change your direct deposit assignment to another financial institution, or if you wish to change your account number, please allow at least one month for the change to take place. Keep your original account open during the transition. Closing your old account too early may delay your receipt of a pension payment, as un-deposited pension payments would be returned to the ERS for reissue. The "Direct Deposit Agreement" form is on our website at <http://ers.ehawaii.gov>.



# News from the EUTF

## News from the Hawaii Employer-Union Health Benefits Trust Fund (EUTF) Some important reminders for retirees:

### **Medicare Part B Reimbursement**

- Medicare Part B Reimbursements are made at the end of every calendar quarter, i.e., January – March premiums are reimbursed on April 1.
- Medicare Part B premium reimbursements are made by direct deposit. Therefore, you must submit a Direct Deposit Agreement Form (DDA) to the EUTF when you submit a copy of your Medicare Part B card.
- If you pay a higher income-related Medicare Part B premium (more than the standard amount of \$104.90 for 2014), please submit a copy of your Social Security Administration (SSA) Verification Letter to the EUTF as soon as possible. The Medicare Part B premium reimbursement amount is reset each January to the standard amount; therefore, you must submit a copy of your SSA Verification Letter every year that you pay a higher income-related Medicare Part B premium. Please note that the EUTF does not reimburse for any late enrollment penalties.
- If you are currently receiving your Medicare Part B premium reimbursement by check, please contact our Finance Department at 586-7390 or toll-free at 1-800-295-0089, so that we can arrange to have it deposited directly to your bank account just like your Social Security income benefit. It is a faster and more secure way to receive your reimbursement!

### **Coordination of Benefits (COB)**

Are you covered under another non-EUTF prescription drug plan? The following are the basic rules for how the plans coordinate coverage:

- An active employer plan is always primary to a CVS Caremark retiree plan or SilverScript Medicare Part D plan.
- With two non-Medicare retiree plans, your EUTF plan is primary for your expenses and your spouse's plan is primary for his or her expenses.
- Your EUTF SilverScript Medicare Part D plan is primary to a non-Medicare retiree prescription drug plan.

### **IMPORTANT INFORMATION FOR STATE/COUNTY RETIREES WITH SAME-SEX SPOUSES**

If you entered into a same-sex marriage outside of Hawaii before December 2013, and your spouse was provided EUTF health benefits through civil union or domestic partner coverage and you received a Form 1099-MISC from EUTF, the income in box #3, Other Income, may be overstated. Please check with your tax advisor.

Any retiree who requires a revised Form 1099-MISC should email EUTF at [eutfadmin@hawaii.gov](mailto:eutfadmin@hawaii.gov).

We also remind retirees that you must complete an EC-2/EC-2H Enrollment Form and send it to EUTF if you wish to make changes to your marital status.

As a reminder, please be sure EUTF has your current address and phone number.

**Important:** The EUTF is a separate organization from the ERS. If you have any questions about information in this article, please **DO NOT** contact ERS. Please contact the EUTF directly at 586-7390 or toll-free at 1-800-295-0089, or email the EUTF at [eutf@hawaii.gov](mailto:eutf@hawaii.gov). You can also visit our website for more information @ [www.eutf.hawaii.gov](http://www.eutf.hawaii.gov).



## Employees' Retirement System

of the State of Hawaii

*Working to fulfill your retirement dreams...*

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Scan the QR code with your smartphone  
to directly access the ERS website.

# Holomua

## Retirees

*January/February/March 2014*

## Ask ERS

### Answers to some frequently asked questions:

**Q:** With the tax deadline coming up in April, is the ERS able to provide tax advice?

**A:** No. The ERS can only provide information regarding the ERS pension and the 1099R Form that we issue. We do not provide any tax advice. You need to seek the services of a tax advisor/preparer on your own. Should you find that you need to adjust your tax withholding for this year, please refer to "Pension Forms" on our website at <http://ers.ehawaii.gov> for tax withholding tables and W-4P tax forms.

**Q:** Why did some of my retiree friends receive their 1099R late from the ERS?

**A:** All Form 1099Rs were mailed by the January 31, 2014 due date. Some of the Form 1099Rs were returned to ERS with forwarding addresses so we were able to immediately re-mail them to the retiree or beneficiary. However, the ERS receives approximately 200 forms without forwarding addresses. Contact the ERS immediately if you have not yet received your 1099R Form. Be sure to keep the ERS informed of your current address.

**Q:** If I return to work for the State, does my pension stop?

**A:** Yes, if you return to work in a State or County position that is ERS membership eligible with at least 50% full-time equivalence and over 3 months your pension will be suspended. Any non-membership position will have no impact on receiving your pension provided you did not work at least 6 months after your retirement. Please refer to the "Retirees Return to Work" information on our website prior to any re-employment and contact our office immediately upon employment to ensure that you will not be overpaid if your pension should have been suspended.

## How to Contact Us

**Monday-Friday 7:45 a.m. - 4:30 p.m.**  
(except State holidays)

**Oahu Office, Phone: (808) 586-1735**

**Kauai Office, Phone: (808) 274-3010**

**Hawaii Office, Phone: (808) 974-4077**

**Maui Office, Phone: (808) 984-8181**

**Molokai & Lanai, toll free to Oahu:**  
1-800-468-4644

**Continental U.S. toll free to Oahu:**  
1-888-659-0708